FDIC State Profile

Summer 2005

North Carolina

North Carolina's economic expansion remains steady.

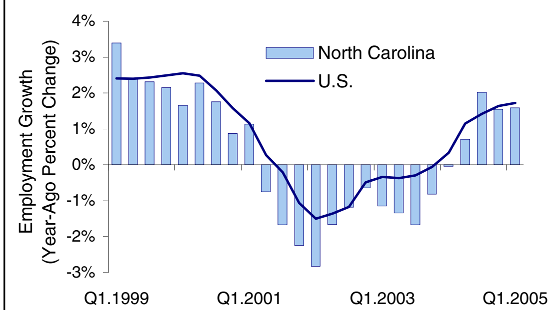
- North Carolina's modest economic expansion continues with job growth nearly on par with the nation. In first quarter 2005, employment in the state was up 1.6 percent from a year earlier compared with the national average of 1.7 percent (See Chart 1). Other labor force indicators also reflect the state's stable pace of growth. Jobless rates have fallen significantly, while initial unemployment insurance claims are now where they stood just prior to the recent recession.

- Economic performance still varies widely across the state. In first quarter 2005, **Wilmington**, **Winston-Salem**, **Greenville**, and **Charlotte** saw year-ago job growth in excess of 3 percent. In contrast, weak conditions persist in other areas of the state, such as **Hickory** and **Rocky Mount**.

- A number of factors may affect the economic outlook for North Carolina. Despite years of manufacturing job losses, North Carolina remains among the top ten most industrialized states. In late 2004, the state actually saw a halt in the erosion of manufacturing jobs. Subsequently, however, layoffs have resurfaced and likely will persist in 2005 because of increased textile and apparel import competition from China. Manufacturing job cuts account for nearly 60 percent of all announced layoffs thus far in 2005.

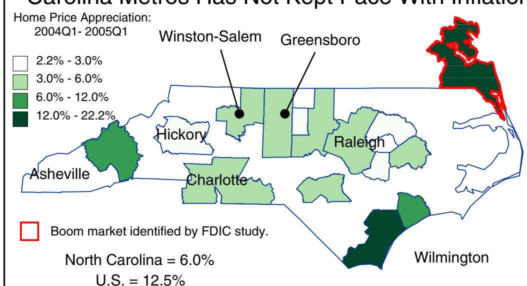
- The military directly employs more than 135,000 people in North Carolina, the fourth highest presence in the nation. Although the recent recommendations of the Base Realignment and Closure Commission did not call for the closure of any major facilities, Pope Air Force Base outside of **Fayetteville** could lose more than 4,000 military and civilian positions. In contrast, nearby Fort Bragg could see a net gain of 4,300 personnel.

Chart 1: North Carolina Employment Continues to Rise



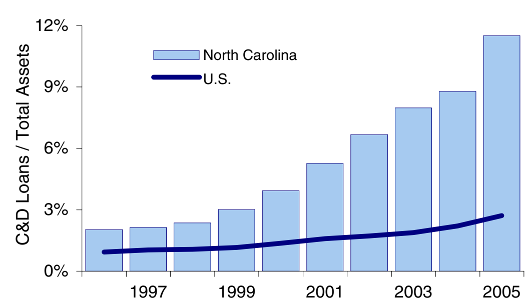
Source: Bureau of Labor Statistics

Map 1: Home Price Appreciation in Some North Carolina Metros Has Not Kept Pace With Inflation



Source: Office of Federal Housing Enterprise Oversight House Price Index, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005.

Chart 2: C&D Lending Continued to be Robust Among North Carolina Community Banks



Source: FDIC, first quarter data.

Residential construction lending at community banks is supporting an active housing market.[1]

- Homebuilding in North Carolina eclipsed its pre-recession high in 2004, as residential permit issuance reached a record level. Through early 2005, however, growth in construction activity may have peaked. The pace of homes sales remained near historic highs.

- Construction and development (C&D) lending grew nearly 37 percent from a year ago. Subsequently, median C&D loan exposure rose to 11.5 percent of assets, up from 8.8 percent a year earlier and pushing the median C&D exposure levels in the state to four times the national level (See Map 1). The **Raleigh** metropolitan area carries the highest exposure in the state at 194 percent of capital, which ranked seventh nationally at first quarter 2005, an increase from 160 percent of capital a year earlier.

Home prices are at a record level even though price appreciation is below average.

- Despite a recovering economy and growth in home sales, home price appreciation in North Carolina has remained subdued. Home price appreciation in the state is less than half the national average, and gains in some metro areas have struggled to keep pace with inflation (See Chart 2). Wilmington was one of the few areas to see home price increases in excess of the national average. A recent FDIC study identified 55 "boom" markets nationwide that had rapid price gains in 2004—one of which the state shared with Virginia (Virginia Beach).[2]

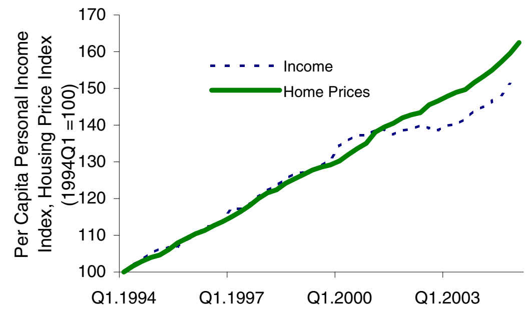
- Although price appreciation has lagged, housing affordability could emerge as an issue in North Carolina. Despite the recovery, income growth has failed to keep pace with even modest gains in prices statewide (See Chart 3). Though still below the national average, the ratio of home prices to income levels in the state reached record highs in 2004 (See Chart 4).

- In 2004, estimated median household income of $40,862 was 4.2 percent below the amount needed to finance the purchase of the median priced house in North Carolina.[3] This shortfall may explain why nearly 30 percent of all securitized mortgage originations in the state were interest-only.[4] The increased use of innovative lending products may suggest that homebuyers are stretching to purchase higher priced homes. Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.

Bank returns improved despite falling noninterest revenues

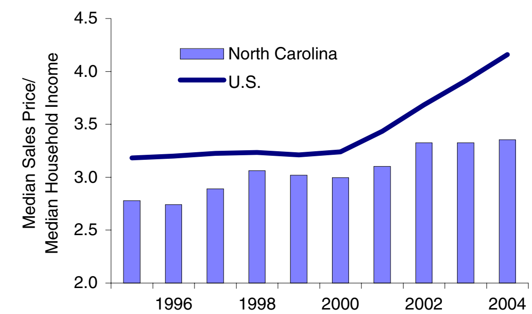
- By the end of first quarter 2005, North Carolina community banks had an increase in their return on assets (ROA). Despite a steady erosion of noninterest income, average ROA jumped 9 basis points to 0.97 percent from the year ago period as net interest income surged due to strong loan growth. In addition, North Carolina banks have been able to hold operating costs steady (See Chart 5), which aided in the improved profitability.

Chart 3: North Carolina Income Growth Lags Home Price Appreciation



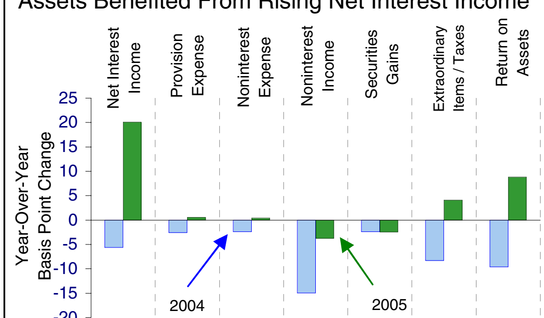
Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 4: Home Price-to-Income Ratios in North Carolina Remain Below the National Average



Source: Bureau of Census and Economy.com

Chart 5: North Carolina Community Bank Return on Assets Benefited From Rising Net Interest Income



Source: FDIC, first quarter data.

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[1] Community banks include all financial institutions with assets less than $1 billion and exclude specialty and de novo institutions.
[2] Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which *inflation-adjusted* home prices rose by at least 30 percent during the 2001-2004 period.
[3] Assumes buyer purchases home with a 20 percent down payment, 30-year fixed-rate mortgage, and dedicates 30 percent of gross monthly income to debt service, taxes and insurance.
[4] Peter Coy, "A Growing Tide of Risky Mortgages," *Business Week*, May 18, 2005.

North Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	0.0%	-1.1%	-2.8%	1.1%
Manufacturing (15%)	-0.2%	-6.9%	-5.8%	-10.7%	-3.6%
Other (non-manufacturing) Goods-Producing (6%)	4.6%	0.2%	-4.4%	-4.7%	1.6%
Private Service-Producing (62%)	1.9%	1.4%	0.4%	-1.4%	2.1%
Government (17%)	1.3%	1.3%	-0.7%	1.8%	3.4%
Unemployment Rate (% of labor force)	5.2	5.8	6.5	6.8	4.7

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.9%	2.0%	1.6%	4.8%
Single-Family Home Permits	5.2%	27.8%	-9.6%	3.2%	3.6%
Multifamily Building Permits	-27.9%	44.0%	-6.9%	-31.1%	-0.6%
Existing Home Sales	12.7%	8.1%	7.7%	15.5%	-7.6%
Home Price Index	6.0%	3.6%	3.5%	3.4%	6.0%
Bankruptcy Filings per 1000 people (quarterly level)	1.11	1.10	1.17	1.07	1.00

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	108	104	108	113	118
Total Assets (in millions)	1,435,749	1,190,803	1,022,306	946,865	961,762
New Institutions (# < 3 years)	11	8	12	15	22
Subchapter S Institutions	2	2	3	4	4

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.15	1.34	1.71	1.47	1.36
ALLL/Total Loans (median %)	1.28	1.25	1.34	1.31	1.33
ALLL/Noncurrent Loans (median multiple)	2.23	1.91	1.57	1.93	2.32
Net Loan Losses / Total Loans (median %)	0.06	0.07	0.06	0.08	0.07

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.85	9.47	9.40	9.45	10.21
Return on Assets (median %)	0.75	0.77	0.77	0.76	0.75
Pretax Return on Assets (median %)	1.13	1.12	1.12	1.11	1.01
Net Interest Margin (median %)	4.10	4.03	4.05	4.04	4.03
Yield on Earning Assets (median %)	6.91	6.78	7.04	7.30	7.72
Cost of Funding Earning Assets (median %)	2.84	2.81	2.98	3.23	3.67
Provisions to Avg. Assets (median %)	0.25	0.26	0.27	0.25	0.24
Noninterest Income to Avg. Assets (median %)	0.68	0.73	0.76	0.70	0.63
Overhead to Avg. Assets (median %)	3.22	3.22	3.20	3.18	3.15

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	75.4	72.8	71.7	71.3	71.2
Noncore Funding to Assets (median %)	26.9	25.2	22.5	23.1	21.1
Long-term Assets to Assets (median %, call filers)	11.6	13.6	13.8	14.3	13.4
Brokered Deposits (number of institutions)	52	45	37	28	23
Brokered Deposits to Assets (median % for those above)	5.0	4.0	4.9	4.3	2.2

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	88.7	101.9	104.0	104.1	81.8
Commercial Real Estate	326.3	306.5	252.5	218.1	177.5
Construction & Development	104.1	88.1	81.6	64.5	57.3
Multifamily Residential Real Estate	10.7	7.9	10.1	10.3	7.9
Nonresidential Real Estate	163.3	168.1	133.1	115.3	107.3
Residential Real Estate	249.0	257.9	270.5	267.7	277.9
Consumer	20.1	27.9	35.2	41.8	41.5
Agriculture	2.1	2.4	3.3	2.7	3.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	38	78,456	< $250 million	62 (57.4%)
Virginia Beach-Norfolk-Newport News, VA-NC	32	14,965	$250 million to $1 billion	35 (32.4%)
Raleigh-Cary, NC	24	11,730	$1 billion to $10 billion	6 (5.6%)
Winston-Salem, NC	17	10,901	> $10 billion	5 (4.6%)
Greensboro-High Point, NC	29	9,129		